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June 3, 2011

Honorable James M. Peck  
United States Bankruptcy Judge  
United States Bankruptcy Court  
Southern District of New York  
One Bowling Green  
New York, NY 10004-1408

**Re: In re Lehman Brothers Holdings Inc., et al., Case No. 08-13555 (JMP)**  
**In re Lehman Brothers Inc., Case No. 08-01420 (JMP); Lehman Brothers**  
**Inc., v. Barclays Capital, Inc., Adv. No. 09-01732**

Dear Judge Peck:

We write to provide clarification and confirmation regarding some of the dollar amounts for Margin Assets that were discussed during the status conference held on May 9, 2011 to address the disagreements between Barclays and the Trustee regarding the Proposed Orders implementing the Court's February 22, 2011 Opinion.

During that status conference, it became apparent that there were some discrepancies between Barclays and the Trustee (and some uncertainty on the part of both parties) regarding the precise dollar amounts applicable to various categories of Margin Assets. We have worked with the Trustee to try to resolve those discrepancies, so that we could provide the Court with precise numbers that would allow for final Orders to be entered to implement any decisions the Court makes relating to the various disputes that were argued on May 9.

We have discussed these numbers with the Trustee, and both parties agree that the attached Margin Schedules 1 and 2 accurately reflect the total amount of the Margin Assets in the possession of Barclays and the Trustee, respectively, with the caveat that Barclays is relying on the Trustee's representations concerning the Margin Assets that the Trustee has received from third parties. Both parties also agree that Margin Schedules 1 and 2 accurately reflect the maturities of the relevant Margin Assets that were in the form of government securities.<sup>1</sup> Margin Schedule 1 shows that the total amount of the Margin Assets claimed by the Trustee that have already been delivered to Barclays is \$2.054 billion (\$1.880 billion in cash margin and \$174 million in government securities with maturities longer than three months). Margin Schedule 2 shows that the total amount of the Margin Assets that the Trustee has represented are in the Trustee's possession is \$1.124 billion, consisting of at least \$45,176 in cash margin and at least \$1.115 billion in government securities with maturities longer than three months (of which \$795M have maturities longer than fifteen years). (The parties currently lack information

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<sup>1</sup> For the reasons stated in his post-trial briefings, the Trustee does not believe that a breakdown of the Margin Assets based on their form, including their date of maturity, is relevant to the proposed orders.

regarding whether the remaining approximately \$9 million was in the form of cash or government securities at the Closing).


In addition to the assets listed on Margin Schedules 1 and 2, Barclays has determined that there is a total of approximately \$878.5 million (valued as of the Closing) in Margin Assets that, according to the Trustee's representations to Barclays of what the Trustee has received, are not in the Trustee's possession, but which have likewise not been transferred to Barclays. This includes between \$620 million and \$633.5 million in cash margin,<sup>2</sup> \$10 million in government securities with maturities less than or equal to three months, and between \$235 million and \$248.5 million in government securities with maturities longer than three months (in all cases, using values as of the Closing). We understand that these assets remain in the possession of third party brokers or Lehman affiliates. It is our understanding that the Trustee at this time cannot fully verify Barclays' breakdown of the Margin Assets in the possession of third parties, but is willing to include language in the proposed orders to reflect the entitlement of the Trustee or Barclays, as applicable, under the Court's decision, to pursue the Margin Assets, in one or more forms, that are in the possession of third parties.

To the extent Barclays is awarded any of the Margin Assets that are not currently in its possession, Barclays believes it is entitled to delivery of those assets at their current values (as well as any distributions). Margin Schedule 3, attached hereto, is a schedule providing Barclays' best estimate of the current value of each of the categories of Margin Assets that are not currently in its possession. We understand that the Trustee has not independently determined the current value of these assets.

As shown in Margin Schedule 4, the total amount of the offset Barclays seeks (under section 550(e) and applicable law, as previously argued) for the OCC liabilities it assumed is \$1.874 billion. For the reasons stated in his post-trial briefings, the Trustee does not agree that Barclays is entitled to any offset, nor that the offset can be calculated as reflected in Schedule 4.

We are hopeful that the Court will find this information useful for the upcoming June 6 hearing.

Sincerely,



Jonathan D. Schiller

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<sup>2</sup> \$87 million of this amount consists of Guaranty Funds held by CME at the time of Closing. The arguments with regard to "clearing funds" and "guaranty funds" put forth in Barclays' post-trial briefings and during the May 9 argument encompass both this \$87 million in cash and \$171,183,531.25 of the government securities in the Trustee's possession that were held by the OCC at the time of Closing.

**MARGIN SCHEDULE 1 –MARGIN ASSETS IN BARCLAYS' POSSESSION**<sup>3</sup>

**Total Margin Assets securing futures customers: \$2.814B**

Consisting of:

Customer margin: \$2.154B<sup>4</sup>

Proprietary margin: \$660M

Consisting of:

Proprietary cash margin: \$505M<sup>5</sup>

Government securities with maturities longer than 3 months: \$155M<sup>6</sup>

**Total Margin Assets securing non-OCC proprietary futures: \$0M**

**Total Margin Assets securing OCC options and futures: \$1.394B<sup>7</sup>**

Consisting of:

Proprietary cash margin: \$1.375B

Government securities with maturities longer than 3 months: \$19M<sup>8</sup>

**TOTAL MARGIN ASSETS CLAIMED BY TRUSTEE  
AND IN BARCLAYS' POSSESSION: \$2.054B**

Consisting of

Proprietary cash margin: \$1.880B

Government securities with maturities longer than 3 months: \$174M

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<sup>3</sup> These figures are all based on valuations as of the Closing.

<sup>4</sup> See BCI Ex. 729. The Trustee agrees that Barclays is entitled to this amount.

<sup>5</sup> See BCI Ex. 353, at Ex. 2; BCI Ex. 729; BCI Ex. M. 494; M. 495.

<sup>6</sup> See BCI Ex. 973; BCI Ex. 353, at Ex. 2.

<sup>7</sup> See BCI Ex. 646; BCI Ex. 147, at 9; BCI Exs. 330, 331.

<sup>8</sup> See BCI Exs. 330, 331, 680.

**MARGIN SCHEDULE 2 –MARGIN ASSETS IN TRUSTEE’S POSSESSION<sup>9</sup>**

<b>Margin Assets securing proprietary futures:</b>	<b>\$176M</b>
Includes:	
Proprietary cash securing proprietary futures:	\$45,176 to \$9.08M <sup>10</sup>
Government securities with maturities longer than 3 months:	\$167M to \$176M <sup>11</sup>
<b>Margin Assets securing OCC positions:</b>	<b>\$948M<sup>12</sup></b>
Consisting of:	
Proprietary cash securing OCC positions:	\$0 <sup>13</sup>
Government securities with maturities longer than 3 months:	\$948M <sup>14</sup>
<b>TOTAL MARGIN ASSETS IN TRUSTEE’S POSSESSION:</b>	<b>\$1.124B</b>
Includes:	
Proprietary cash margin:	\$45,176 to \$9.08M
Government securities with maturities longer than 3 months:	\$1.115B to \$1.124B

<sup>9</sup> Again, these figures are all based on valuations as of the Closing.

<sup>10</sup> M. 494, BCI Ex. 973 (Macquarie Group (“Macquarie”) Open Position Statements, 9/19/08, for accounts LEHH and LEHH2). The Macquarie statements show that the balance of LBI’s house accounts as of 9/19/08 was approximately \$195M, composed of \$9M cash and \$186M collateral (all USD values calculated using the conversion rate reflected on BCI Ex. 973). The Trustee has represented that he has received \$171M from Macquarie and that Macquarie has held back approximately \$31M. Macquarie has not advised the Trustee whether the \$171M corresponds entirely to the liquidated government securities or a combination of cash and governments securities that were posted by LBI at Macquarie at the Closing. If the \$171M includes all the LBI cash posted at Macquarie on 9/19/08, the “Proprietary cash securing proprietary futures” is the upper bound of \$9.08M, else it is the lower bound of \$45,176 reflected above. If the \$171MM includes all the liquidated government securities posted by LBI at Macquarie as of 9/19/08, the “Government securities with maturities longer than 3 months” is the upper bound of \$176M (including a \$5M t-bill at Bank of Montreal), else it is any value between \$167M and \$176M depending on the combination of cash and liquidated governments securities Macquarie delivered to the Trustee.

<sup>11</sup> BCI Ex. 973.

<sup>12</sup> Of this amount, t-bonds valued as of Closing at \$795M had maturities longer than 15 years. See note 14 *infra*.

<sup>13</sup> This excludes \$80 million in undelivered proceeds from certain letters of credit deposited as margin in LBI’s OCC accounts prior to the Closing that are the subject of a separate interpleader action.

<sup>14</sup> BCI Exs. 681-685, 688 (t-bills with face values of \$42M, \$41M bill, \$14.5M, \$25M,, \$28M, and 3M, all with nearly 6 month maturities); BCI Exs. 686, 689, 691 (bonds with face values of \$119.445M, \$86.585M, \$175M, and \$26.26M, all with over 16 year maturities); BCI Ex. 690 (bond with face value of \$55.56M with 17 year maturity); BCI Ex. 687, 692 (bonds with face values of \$59.175M, \$85.77M, and \$34M, all with over 19 year maturities).

**MARGIN SCHEDULE 3 – BARCLAYS' CURRENT VALUATIONS FOR  
UNDELIVERED MARGIN ASSETS**

<b>CATEGORY</b>	<b>CLOSING DATE VALUE</b>	<b>3/31/11 VALUE</b>
<b>Proprietary margin securing customer futures</b>	<b>\$483 million</b>	<b>\$474 million + distributions and accrued interest</b>
Proprietary cash securing customer futures	\$388 million	\$379 million + accrued interest
Government securities with maturities longer than 3 months	\$95 million	\$95 million + distributions and accrued interest on proceeds of matured securities
<b>Margin securing proprietary futures</b>	<b>\$480 million</b>	<b>\$508 million + distributions and accrued interest</b>
Proprietary cash securing proprietary futures	\$154 million	\$182 million + accrued interest
Government securities with maturities longer than 3 months	≥ \$280 million	≥ \$280 million + distributions and accrued interest on proceeds of matured securities
<b>Margin securing OCC positions</b>	<b>\$948 million</b>	<b>\$1.067 billion</b>
Proprietary cash securing OCC positions	\$0	\$0
Government securities with maturities longer than 3 months	\$948 million	\$1.067 billion
<b>TOTAL MARGIN CLAIMED BY TRUSTEE</b>	<b>\$1.911 BILLION</b>	<b>\$2.049 BILLION + distributions and accrued interest on non-OCC cash and securities</b>
Total proprietary cash margin claimed by Trustee	\$542 million	\$561 million + accrued interest on non-OCC cash
Total government securities with maturities longer than 3 months	≥ \$1.323 billion	≥ \$1.452 billion + distributions and accrued interest on proceeds of non-OCC matured securities

**MARGIN SCHEDULE 4 – OFFSET FOR OCC LIABILITIES:**

**Net liabilities at OCC assumed by Barclays as of Closing:** **\$1.144 billion**

This includes:

- net liabilities on options in LBI proprietary accounts: \$1.027 billion<sup>15</sup>
- net liabilities on affiliate options in LBI customer accounts: \$77 million<sup>16</sup>
- net liabilities on affiliate futures in LBI proprietary accounts: \$40 million<sup>17</sup>

**Post-closing losses on options in LBI's proprietary accounts:** **\$730 million<sup>18</sup>**

**TOTAL "OFFSET" SOUGHT BY BARCLAYS:** **\$1.874 billion**

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<sup>15</sup> See BCI Ex. 147 at 1-2.

<sup>16</sup> See BCI Ex. 147 at 1-2.

<sup>17</sup> See BCI Ex. 729 (showing "OCC loss" on futures of \$40,311,065).

<sup>18</sup> See BCI Ex. 147, at p. 2; *see also* Barclays' Proposed Finding of Fact 34.9.2.